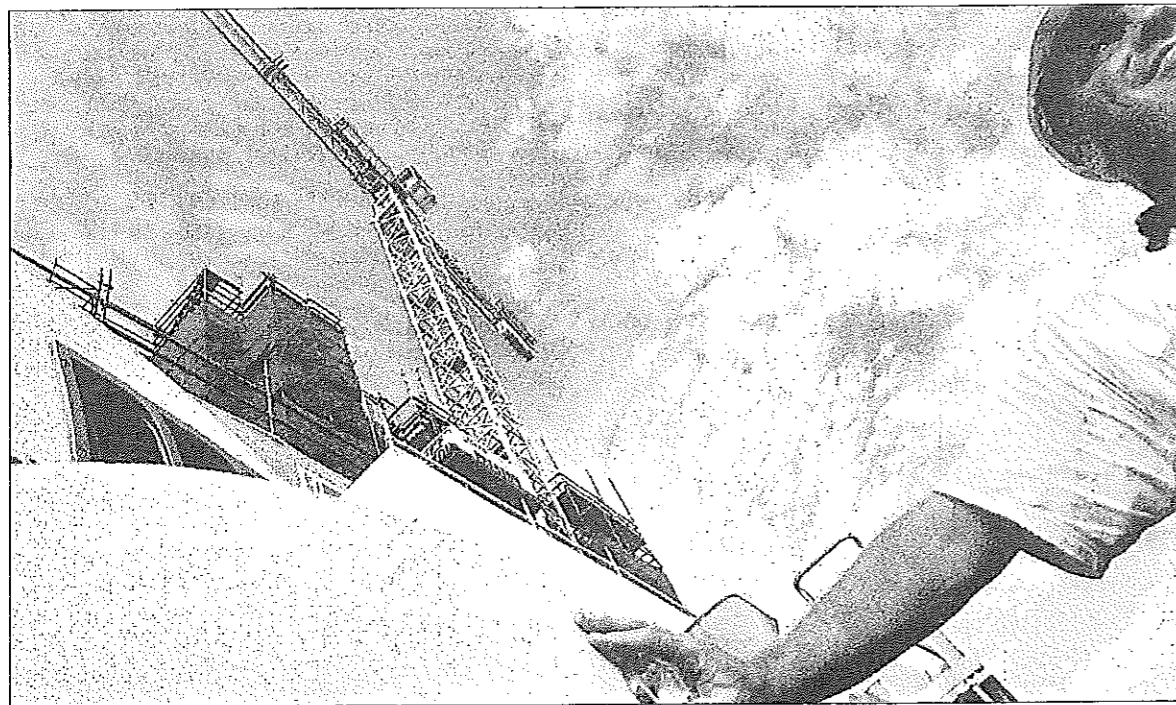


Great divide in construction activity

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Highs and lows . . . not many buildings are going up, while job numbers are going down.

Photo: NIC WALKER

Great divide in construction

Michael Hobbs and Ben Hurley

The lowest level of construction activity in more than two years has sharpened the divide between builders and suppliers focused on resource and infrastructure projects and those scrapping over the residential market.

The last of the work from the \$16.2 billion federal government Building the Education Revolution program has been completed and for those not involved in resource projects there is little work in the private sector to replace it.

"When the BER schools work finished, which was the end of March,

it's just like it fell off a cliff," said Peter Kennedy, chairman of Hansen Yuncken, one of the country's largest private builders.

Developers remain reluctant to commit to work because of fears about the global economy and banks are setting stringent lending conditions. Large numbers of companies were tendering for limited government jobs, with the winners having narrowed their margins to the point they were "probably not going to make any money", Mr Kennedy said.

"People are in on a very low price and go to the contractors and want to beat them down to the point they are

uneconomical. It's a very uncomfortable position in the industry, and it tends to force standards and quality down because people are just trying to survive rather than do a good job."

The Australian Industry Group Performance of Construction Index (PCI), a joint effort with the Housing Industry Association, which shows the level of construction activity across the housing, commercial and large-end engineering sectors, fell 4 points to 32.1 in August.

It's the lowest index result in more

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than two years and well below the 50 point mark for a stable industry. Above the 50 point mark indicates construction activity expanded and below indicates contraction.

Activity has now fallen for the 15th consecutive month.

All four major construction sectors are contracting, according to the index, with house building at 29.6, apartments at 25.2, commercial construction at 29.4 and engineering construction at 38.2. New orders fell to a two-year low of 24.5, selling prices continued to decline and employment in the sector fell.

The fall in activity is further widening the chasm between building material companies including Boral, Adelaide Brighton and Fletcher Building, which service the resources and infrastructure sectors, and those forced to scrap in the housing market including CSR, Brickworks, Alesco and GWA Group.

Boral has spent most of this year expanding its concrete and quarry business in Queensland, where the resource industry is booming. About 24 per cent of Boral's earnings come from the engineering sector.

Adelaide Brighton's market positions in Western Australia and South Australia means a larger portion of its revenue is generated from the resources and energy sectors. Fletcher Building's exposure to the Australian resources and infrastructure markets, while diluted by the purchase of Crane Group, remains strong.

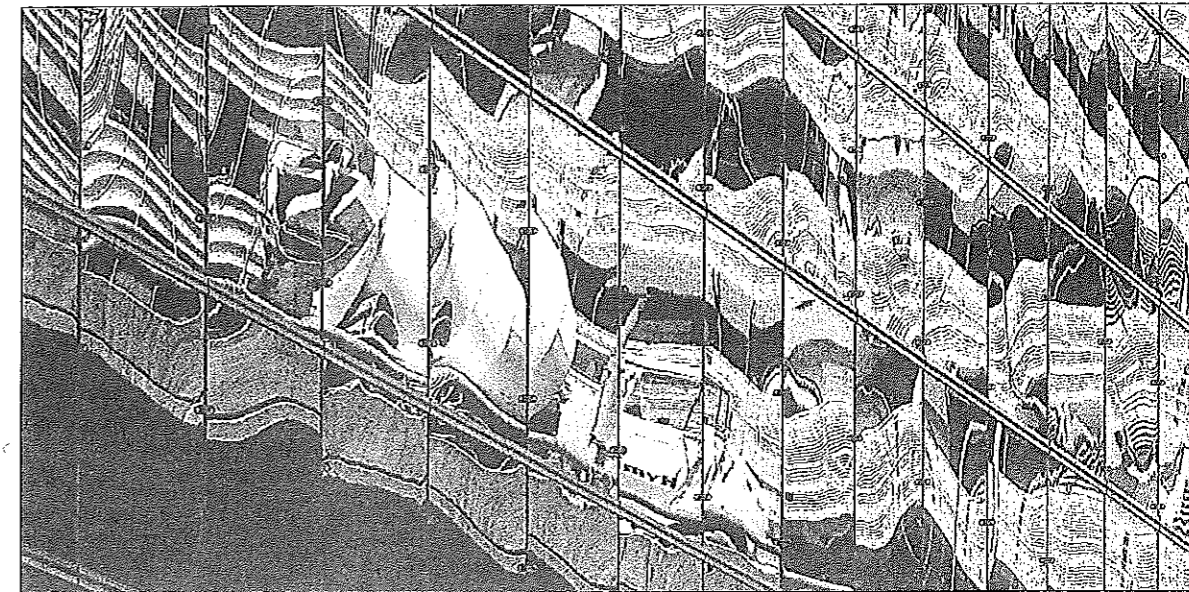
Building materials groups that supply bricks, plasterboard, glass and door handles to the residential and commercial building markets are, however, struggling to maintain margins in challenging conditions for residential building and renovation.

This month CSR and Alesco downgraded their earnings expectations after new building figures highlighted a rapid deterioration in the new building and renovation market.

CSR said it now expects to post a loss before interest and tax of between \$6 million and \$8 million for the six months to September 2011 after generating positive earnings for the full year to March.

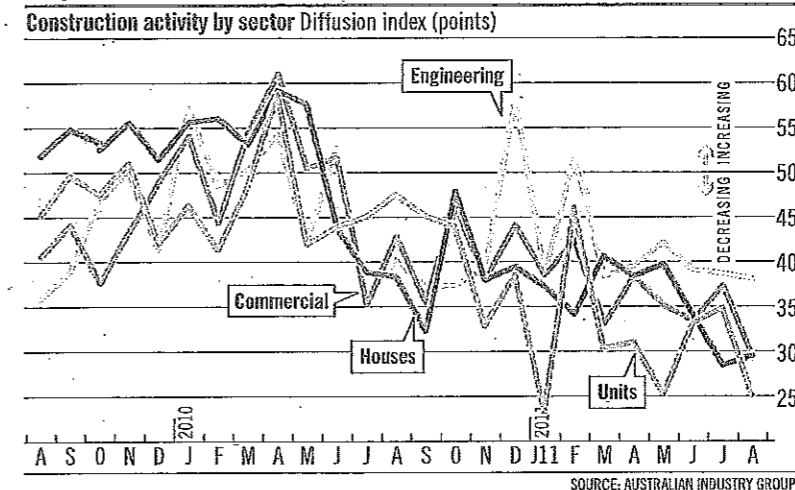
The group's glass business would rationalise its Melbourne operations, and all "uneconomical products" such as toughened door panels would no longer be produced at selected sites.

The sharp deterioration in August also forced Alesco, which supplies laminates, garage doors and a number of other building products to the construction market, to warn the market just weeks after it had released results that its revenue and



Going nowhere . . . developers are reluctant to commit to work because of fears about the global economy. Photo: REUTERS

Laying off



earnings would be lower than expected.

Keith Carqueville, owner of one of the biggest privately owned recycled brick suppliers in NSW, The Brick Pit, said he's feeling the pinch.

"We fight for everything we get," he said.

Mr Carqueville said the business was still afloat because it had improved marketing and redirected their efforts to commercial shop fit-outs, restaurants and bars.

"If I was in the general building marketplace like the [Sydney suburbs] Kellyvilles and the Castle Hills I'd be dead. It's a simple as that," he added.

Peter Burn, Australian Industry Group director of public policy, said the downturn was having wide-ranging effects beyond the construction industry.

"The prolonged downturn in the construction sector is detracting from current levels of activity across

the broader economy through its impacts on manufacturing and service industries linked to the sector," Dr Burn said.

"Construction employment has also been falling for some time and this too is being felt across the broader economy as households reliant on wages from this important sector cut back on their spending."

Almost every statistical indicator related to the building industry appears to be pointing downwards. The number of new home sales fell 8 per cent to 10-year lows in July, according to HIA-JELD WEN. Australian Bureau of Statistics dwelling approvals have fallen 15 per cent in the year to July. Residential and non-residential building work plunged in the June quarter, according to the ABS, with engineering the only sector to increase.

A Macromonitor survey of the non-residential construction industry predicted this month that all major

areas of the commercial and industrial construction sector would weaken in 2011-12. A "saving grace" was a handful of massive hospital construction projects, the report found.

Dave Noonan, national secretary of the CFMEU's construction and general division, said people were losing their jobs.

"The industry is very flat and there are reports of quite a few members now who are not working or only working intermittently," Mr Noonan said. "Those economists arguing for an interest rate increase have got to be out of their minds if you take into account the level of construction around the country at the moment."

The latest PCI figures follow housing finance numbers from July, released by the ABS on Tuesday this week. They are a good indicator of future house building activity.

Housing finance approvals in July were 7 per cent below the prior corresponding period, marking the second consecutive month of declines.

According to broker Royal Bank of Scotland, this downward trend resumes the 13 consecutive months of decline on the prior corresponding period between April 2010 and April 2011.

HIA chief economist Harley Dale said stimulus measures were urgently required to prevent home building activity from falling to depths seen during the global financial crisis.

"Structural reform is also vital and the coming tax forum next month provides an important opportunity to kick-start this process," he said.

"We need a catalyst to turn around these weak economic times and I don't pretend to know what that might be, but interest rate cuts would surely be part of it."